

## **Section 7**

# **Electronic Options Help with Tax Payments**

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### **Electronic Payment Options for 2005**

Taxpayers can pay taxes electronically by authorizing an e-pay option, such as an electronic funds withdrawal from a checking or savings account or by using a credit card. Taxpayers who will be making more than one estimated tax payment may want to enroll in Electronic Federal Tax Payment System.

#### **E-Payments can be used to:**

- Pay taxes owed on a 2004 income tax return.
- Pay projected tax due when requesting an automatic extension of time to file.
- Pay quarterly estimated taxes for Tax Year 2005.
- Make a credit card payment on an active Installment Agreement for past due tax owed for years 1995 and after.

The IRS has entered into partnerships with private industry, including credit card processors and tax preparation software developers, to make these electronic payment options available.

- More than 1.75 million people paid their federal taxes by electronic funds withdrawal or credit card during 2004.

### **Electronic Funds Withdrawal**

Electronic funds withdrawal is free and taxpayers decide when the tax payment is scheduled to be withdrawn from their bank account. Electronic funds withdrawal is available only to those who e-file, either by computer or by phone. A taxpayer may file early and, at the same time, schedule the electronic funds withdrawal as late as April 15, 2005.

A 2005 estimated tax payment can be made through electronic funds withdrawal only when filing a 2004 tax return via computer, whether or not there is a balance due on the return. The quarterly estimated tax payment may be the payment due in April, June, or September. Only one estimated tax payment can be made through electronic funds withdrawal per year. This payment cannot be made by phone.

- In 2004, more than 800,000 taxpayers paid their taxes through electronic funds withdrawal, an increase of 24 percent over the prior year.

## Section 7

# Electronic Options Help with Tax Payments

---

### Credit Card Payments

Taxpayers can make credit card payments whether they file electronically or file a paper return. Credit card payments can be submitted via the tax software when filing electronically. Credit card payments can also be made over the telephone and by filing on line.

- In 2004, more than 950,000 taxpayers paid by credit card, an increase of 70 percent over the prior year.

The IRS does not set or collect any type of fee for credit card payments, but the private sector companies the IRS has authorized to process these payments do charge convenience fees. The tax payment sent to the U.S. Treasury and the convenience fee are listed separately on the cardholder's credit card statement.

Some tax software developers offer integrated e-file and e-pay combinations for those who choose to use a credit card to pay a balance due. The software accepts both the electronic tax return and the credit card information.

Subsequently, the tax return and tax payment data are forwarded to the IRS and the credit card data is forwarded to the payment processor.

For the 2005 filing season, the IRS has awarded contracts to two companies to accept credit card charges from both electronic and paper filers. Each company has its own convenience fee schedule, and each offers both phone and internet payment services. The two companies are:

- Official Payments Corporation, 1-800-2PAY-TAX (1-800-272-9829), 1-877-754-4413 (Customer Service), and
- Link2Gov Corporation, 1-888-PAY-1040 (1-888-729-1040), 1-888-658-5465 (Customer Service).

Anyone may use these services to charge taxes to an American Express Card, Discover Card, MasterCard or VISA account. VISA joined the IRS credit card program in March 2002.

### Electronic Federal Tax Payment System (EFTPS)

EFTPS is a tax payment system provided free by the U.S. Department of Treasury. Pay federal taxes electronically, on-line or by phone 24/7. Visit [www.EFTPS.gov](http://www.EFTPS.gov) to enroll. Taxpayers can use EFTPS to make all your federal tax payments, including income, employment, estimated and excise taxes. To use EFTPS, you must first enroll. To enroll or for more information online, visit

## Section 7

# Electronic Options Help with Tax Payments

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EFTPS.gov or to receive an enrollment form, call EFTPS Customer Service at 1-800-555-4477.

EFTPS offers taxpayers the convenience and flexibility of making tax payments through the Internet, or by phone. By 8:00 P.M. (ET) at least one business day in advance of due date, you access EFTPS directly to report your tax information. You will instruct EFTPS to move the funds from your account to the Treasury's account for payment of your federal taxes. Funds will not move from your account until the date you indicate. You receive an immediate acknowledgement of your payment instructions, and your bank statement will confirm the payment was made.

Businesses can pay all their federal taxes using EFTPS. Individuals can pay their quarterly 1040ES estimated taxes electronically using EFTPS, and they can make payments weekly, monthly, or quarterly as well as schedule payments for the entire year in advance.

You can initiate your tax payments 24 hours a day, seven days a week. As an added convenience, EFTPS allows taxpayers to schedule tax payments in advance. Businesses can schedule payments up to 120 days in advance of their tax due date, and individuals can schedule payments up to 365 days in advance of their tax due date. EFTPS will automatically make your payments for you on the due date you indicate. Schedule payments can be changed or cancelled up to 2 business days in advance of the scheduled payment date.

### Related Items:

- [Electronic Federal Tax Payment System](#)
- [Official Payments Corporation](#)
- [Link2Gov Corporation](#)

### Legislation Allows Partial Payment Option

The Internal Revenue Service (IRS) implemented an additional payment option, on January 17, 2005, known as the Partial Payment Installment Agreement (PPIA) for taxpayers who have outstanding federal tax liabilities. This new payment option became possible with the passage of the American Jobs Creation Act of 2004 signed into law on October 22, 2004. The new legislation includes language amending Internal Revenue Code 6159 to allow the IRS to

## **Section 7**

# **Electronic Options Help with Tax Payments**

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enter into installment agreements that result in full or partial payment of the tax liability.

Prior to enactment of this legislation, taxpayers that could not fully pay their outstanding tax liabilities could only enter into an agreement with the IRS if it resulted in full payment of the liability. This left taxpayers unable to meet this criterion with limited payment options.

Taxpayers who request a PPIA must provide complete and accurate financial information that will be reviewed and verified. Taxpayers will also be required to address equity in assets that can be utilized to reduce or fully pay the amount of the outstanding liability.

In addition, taxpayers granted PPIAs will be subject to a subsequent financial review every two years. As a result of the review, the amount of the installment payments could increase or the agreement could be terminated, if the taxpayer's financial condition improves.

The PPIA payment option will provide an appropriate payment option for many taxpayers. Those who qualify for the PPIA option will be strongly encouraged to make their payments via the direct debit option.